

ZAYRE Annual Report 1968



Financial Highlights

	1968	1967	% Change
Net Sales	\$490,691,000	\$415,435,000	18.1
Income before Federal Income Taxes	18,338,000	14,974,000	22.5
Net Income after Federal Income Taxes	9,538,000	8,474,000	12.6
Working Capital	52,459,000	42,663,000	23.0
Shareholders' Equity	56,328,000	46,739,000	20.5
Net Income Per Common Share	2.10	1.88	11.7

COVER

On their way to a Sunday picnic, every member of the family from grandfather to little Jane has been completely outfitted with the latest in sportswear and accessories — all from Zayre. Our family has also satisfied its other home and apparel needs at Zayre. All merchandise photographed in this report is available in Zayre stores.

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To Our Shareholders:

1968 was a year of vigorous growth and development for Zayre Corp. and, at the same time, new record highs were achieved in sales, net income and shareholders' equity. Significant programs were initiated during the year to further enhance the company's competitive capability. As set forth more completely in the Report of Operations, the following were some of the year's highlights:

- 16 new store openings added 1,228,000 square feet of space and brought the total stores in operation at year end to 131. In accordance with our five-year plan, the program of new store openings has been expanded. Between 20 and 25 new units are scheduled for 1969; nine of these openings take place in the next seven weeks. A group of stores in a major new market is part of this program.
- Management structure has been the subject of a searching examination. We have focused on the organizational requirements created by our program to double our size by 1972. We are working towards a national distribution organization carefully balanced between centralized buying and merchandising and decentralized regional operations on a profit center basis.
- Distribution center support for the additional volume to be serviced over the next several years is being provided. Sites for three area facilities have been selected and secured. Plans for their design, construction and financing have been completed. The Atlanta and Miami facilities should be operational this fall, with Chicago opening in the spring of 1970.
- Rapid strides have been made in implementing our decision to operate our own shoe departments. An experienced merchandising organization has been recruited and operating procedures and techniques established. Volume expectations over the next five years, through new stores and the assumption of the presently leased shoe operations in our existing stores, exceed 50 million dollars per annum.
- We have completed the acquisition of Beaconway Stores, Inc., operator of the leased fabric and yarn departments in all Zayre stores, and six free-standing fabric shops. The rapidly growing home sewing market is one of the most exciting current developments in retailing. With shoes and fabrics, owned departments in

future Zayre stores will account for approximately 97% of total store volume.

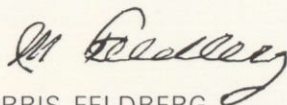
- In December, 1968, the Series A Cumulative Convertible Preferred Stock was called for redemption. This resulted in the conversion of the 456,284 shares of preferred stock outstanding into 170,818 shares of common stock. The dividend service on this preferred issue had been \$347,727 per annum.

We are pleased to report that the Board of Directors, at its meeting of April 17, 1969, voted a three for two common stock split on shares held of record on April 28, 1969. This split recognizes the growth in both sales and earnings of the company in recent years, as well as the increase in the market value of its shares. The increased number of common shares to be made available will tend to create a broader trading market and greater interest in Zayre as an investment medium. It should be noted that all financial data in this report has been adjusted to give effect to the stock split.

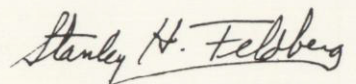
Zayre is fortunate to be a major part of what has often been called "a retail revolution". It is clear that discount retailing will, in the years ahead, continue to increase its share of over-all general merchandise sales and this provides enormous further growth potential. We have geared our operations for an annual growth rate of 15 to 20 percent or better. We anticipate that within four years the company will be operating more than 250 Zayre stores generating annual volume in excess of one billion dollars.

Thus far in 1969, the economy continues at a high level of activity, although at a somewhat slower rate of growth than in 1968. In common with all business we are struggling with the problems created by continuing inflationary pressure on expenses. In order to achieve above-average sales gains, Zayre has launched, in all of its market areas, the most intensive promotional effort in its history. Barring major problems in the economy, 1969 should be another year in which both sales and earnings advance to new records.

People are the very fiber of a successful organization. We salute the dedication, abilities and initiative of our 17,000 Zayre associates throughout the country, who are the foundation upon which our continued growth will be achieved.



MORRIS FELDBERG,
Chairman

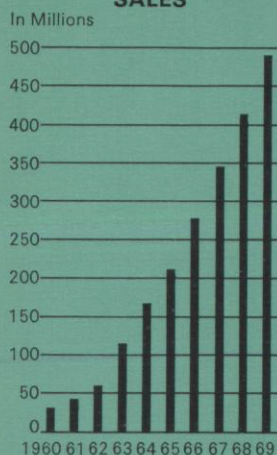


STANLEY H. FELDBERG,
President

April 17, 1969

REPORT OF OPERATIONS

SALES



Financial Review

Net income for the fiscal year ended January 25, 1969 rose 12.6% to a new record high of \$9,538,000, equivalent to \$2.10 per common share. This compares with \$8,474,000 or \$1.88 per share in the prior year. The Federal surcharge, imposed in 1968, reduced earnings by \$835,000, equivalent to 19¢ per share. Net income per common share is based on the average number of shares outstanding in each period, after dividend provision on the Series A and B Preferred Stock (including those as to which dividends were waived).

Total sales, excluding those of leased departments, rose 18.1% to \$490,691,000. Comparative quarterly sales and earnings results were:

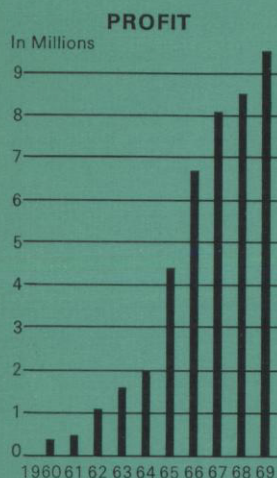
<i>Quarter</i>	1968		
	<i>Sales</i>	<i>Earnings</i>	<i>Per Share</i>
First	\$ 92,705,000	\$ 704,600	\$.13
Second	117,712,000	1,722,000	.37
Third	120,507,000	2,142,200	.47
Fourth	159,767,000	4,969,200	1.13
	<u>\$490,691,000</u>	<u>\$9,538,000</u>	<u>\$2.10</u>

<i>Quarter</i>	1967		
	<i>Sales</i>	<i>Earnings</i>	<i>Per Share</i>
First	\$ 76,260,000	\$ 288,100	\$.04
Second	98,888,000	1,356,500	.29
Third	105,139,000	1,982,700	.44
Fourth	135,148,000	4,846,700	1.11
	<u>\$415,435,000</u>	<u>\$8,474,000</u>	<u>\$1.88</u>

Above-average return on invested capital is a major corporate objective. Our 1968 after-tax income represents a 20% return on average shareholders' equity. Financial results for Beaconway Stores, Inc., acquired in January 1969, have been reflected in the financial results for both 1968 and 1967 on a pooling-of-interests basis.

Credit selling is a small but growing part of our operations. At fiscal year end the Zayre revolving charge program was operative in 109 stores. The bulk of the receivables generated by this program is handled by an independent financing company and requires no investment by Zayre. In order to develop the expertise and special skills required to manage these receivables ourselves, we have purchased the portfolio in three





marketing areas. The financing for owned receivables is being provided by their sale to a group of banks on an annual basis. This program may eventually lead to the formation of a credit subsidiary.

Working capital increased by \$9,796,000 to a total of \$52,459,000. Your management follows a consistent policy of financing most capital expenditures through its leasing subsidiaries. This policy permits the company to utilize virtually all of its earnings and capital increments to expand its working capital position in support of its merchandising operations.

The Leasing Subsidiaries

During 1968, Zayre Leasing arranged new long-term financing in the amount of \$6,850,000. These funds were utilized to purchase fixtures for the 16 new Zayre stores opened during the year, as well as refurbishing certain existing units and updating selected fixtures. In the same period of time \$3,300,000 of Zayre Leasing debt was retired.

The realty subsidiaries financed construction of the fifth Shoppers' City store located in Minneapolis, Minnesota, as well as a complete strip shopping center in Danville, Illinois. The funds were obtained by selling \$3,722,000 first mortgage notes to a major financial institution. Our realty subsidiaries now own fifteen store locations and auxiliary property.

As part of our program to retain more of the residual equity inherent in Zayre store sites we have developed programs with selected real estate developers under which the company retains an interest in the property or its equivalent. At the present time, Zayre has interests in 11 strip centers in which Zayre is the principal tenant, and in 5 additional centers now under development.

During the current fiscal year, we expect to construct and own a new Zayre shopping center in Lewiston, Maine. We plan to exercise our option to purchase the property occupied by Shoppers' City stores in Brooklyn Center and St. Paul, Minnesota. The long-term financing to support this real estate activity is now being developed.

Zayre Realty will construct and own the new distribution centers opening this year and next. Financing for these developments has been arranged with a group of insurance companies through their commitment to purchase Zayre Realty 30-year mortgage notes.

Expansion

The site selection process followed by our real estate department is geared to continually enlarge our position in markets already served, as well as entry into selected new markets. Thus we find that during 1968, nine of the 16 new stores were added in markets where Zayre already operated clusters of stores, thereby greatly strengthening our competitive ability. Of major significance was the entry of the company into North Carolina with the opening of three stores. Also noteworthy was the opening of two additional units in the Atlanta market, making a total of six, as well as the opening of the fifth Shoppers' City store in Minneapolis, Minnesota. At the end of 1968, the 131 stores in operation had a total gross area of approximately 9,855,000 square feet.

As previously noted, our new store program for 1969 has been substantially enlarged to provide for 20 to 25 new stores. This level of growth will be maintained for each of the next several years, and then gradually enlarged to provide 25 to 30 stores per year. Highlights of this year's program include the development of a major cluster of four stores in the St. Louis, Missouri market, the further enlargement of our position in the New York State area, and the opening of five additional stores in North Carolina to complete our initial penetration into that important market.

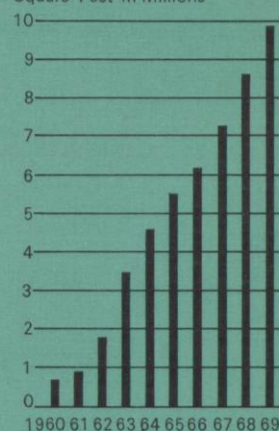
Organizational Study

During 1968, we engaged in a searching analysis of our organizational needs in an attempt to develop the optimum organizational approach to support the growth projected in our five-year plan.

The structure of our regional organization has now been defined. We expect, over the next two years, to develop a network of regional offices each responsible, on a profit center basis, for the operation of 20 to 25 stores in specific markets. As this program is implemented, we will unify our existing field personnel within the framework of the new regions. The merchandise planning functions of our central merchandising staff will be realigned on a geographic basis. As we implement this change, we will continue to enjoy the advantages of a strong centrally controlled buying organization balanced and influenced by the regional operating organizations.

A number of changes have been made at the senior management level. The merchandising and enlarged store operations functions have

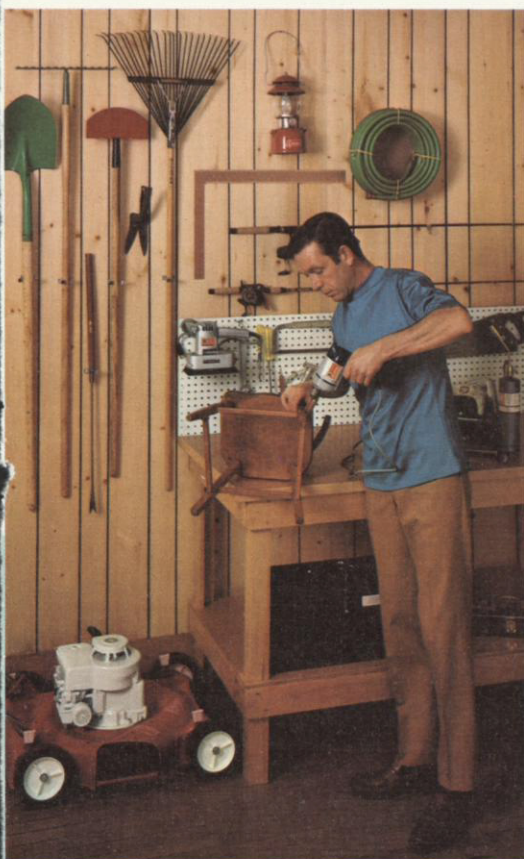
ZAYRE STORE SPACE
Square Feet In Millions





Complete assortments of kitchen utensils and appliances lighten the work load.

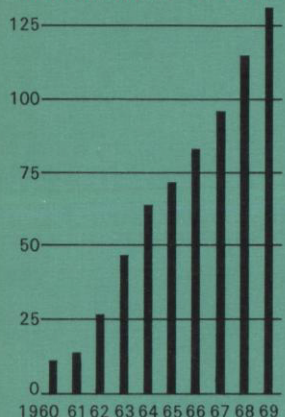
A complete line of sporting goods
affords father and son
the opportunity to play together.



Every child's dream can come true at Zayre.

Gardening or Workshop —
Dad has a full assortment
from which to choose.

**NUMBER OF
DEPARTMENT STORES**



been regrouped under the President to provide better coordination and stronger impetus to our selling activities. Market analysis, real estate, distribution and finance have been grouped under the Executive Vice President. This will provide for better planning to influence the future shape and direction of corporate development.

A corporate personnel department, reporting to the President, has been created to further programs of recruitment, job evaluation, salary administration and executive training and career development. A major assignment of this department will be to staff the new regional organizations.

In addition, we expect to create and fill a number of staff positions reporting to various senior executives to enable increased emphasis on market analysis, advanced planning and merchandise control. The responsibilities of the store operations department have been enlarged to include development of sales promotion and credit selling programs.

Other Developments

The sites for the three distribution centers have been purchased. We have planned 260,000; 110,000 and 300,000 square feet of warehouse space respectively for Atlanta, Miami and Chicago. Each site is large enough to accommodate an enlargement to twice its original size. The Atlanta and Miami centers will be functioning by the fall, 1969, and the Chicago facility by the spring, 1970. Concurrently, executive teams are working on the related problems of recruiting and training personnel and developing systems and E.D.P. support for the new facilities. We are confident that these facilities will be operational as planned and will greatly enlarge our ability to serve the stores on a timely basis.

In January 1969, as previously noted, we acquired Beaconway Stores, Inc., leased operator of the fabric and yarn departments in Zayre stores, as well as a chain of six separate fabric shops. During its prior fiscal year, ended June 29, 1968, Beaconway accounted for sales of \$15,100,000. This was treated as a tax-free exchange and accounted for on a pooling-of-interests basis. 57,659 shares of a new Series B Cumulative Convertible Preferred Stock with a call value of \$3,748,000 were issued. The Series B Preferred is convertible into 86,488 shares of common stock. The operations and management of Beaconway continue intact in a new wholly-owned subsidiary of Zayre Corp. Robert Feinberg, founder, has been elected President of that company.

We are excited about the prospects for our new shoe division. We anticipate that we will be operating about 50 departments within two years with an annual volume in excess of \$12 million and this will grow to above \$50 million in the subsequent three years. In view of this potential we have recruited an experienced cadre of shoe merchants, developed complete systems and operating procedures and have planned for full distribution center support for this activity.

The apparel specialty shops division ("Bell Shops" and "Nugents") opened 3 new units during the year and closed 2 stores, making a total of 46 in operation at year end. With improved profitability, the management of this division has been encouraged to plan the opening of several stores in major regional centers during 1970, utilizing a new and expanded merchandising format.

Personnel

Since our last annual report the following executives were elected to officerships:

Robert Feinberg, *Vice President — Merchandising*

Gerald Davis, *Assistant Vice President — Merchandising*

Randolph L. Kruger, *Assistant Vice President — Central Office Services*

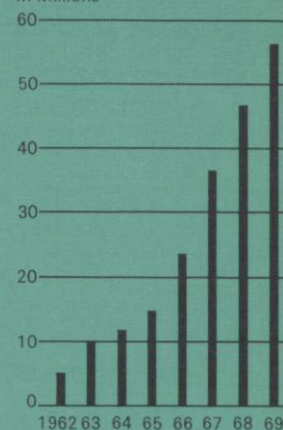
John F. McGowan, *Assistant Vice President — Regional Manager*

Arthur J. Ober, Jr., *Assistant Vice President —
Store Planning and Construction*

Malcolm L. Sherman, *Assistant Vice President — Merchandising*

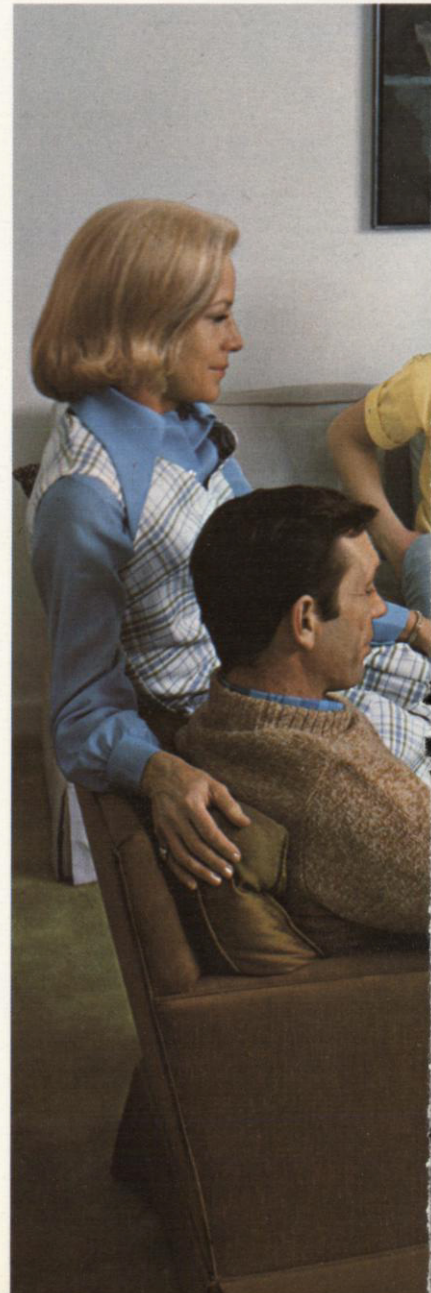
SHAREHOLDERS' EQUITY

In Millions





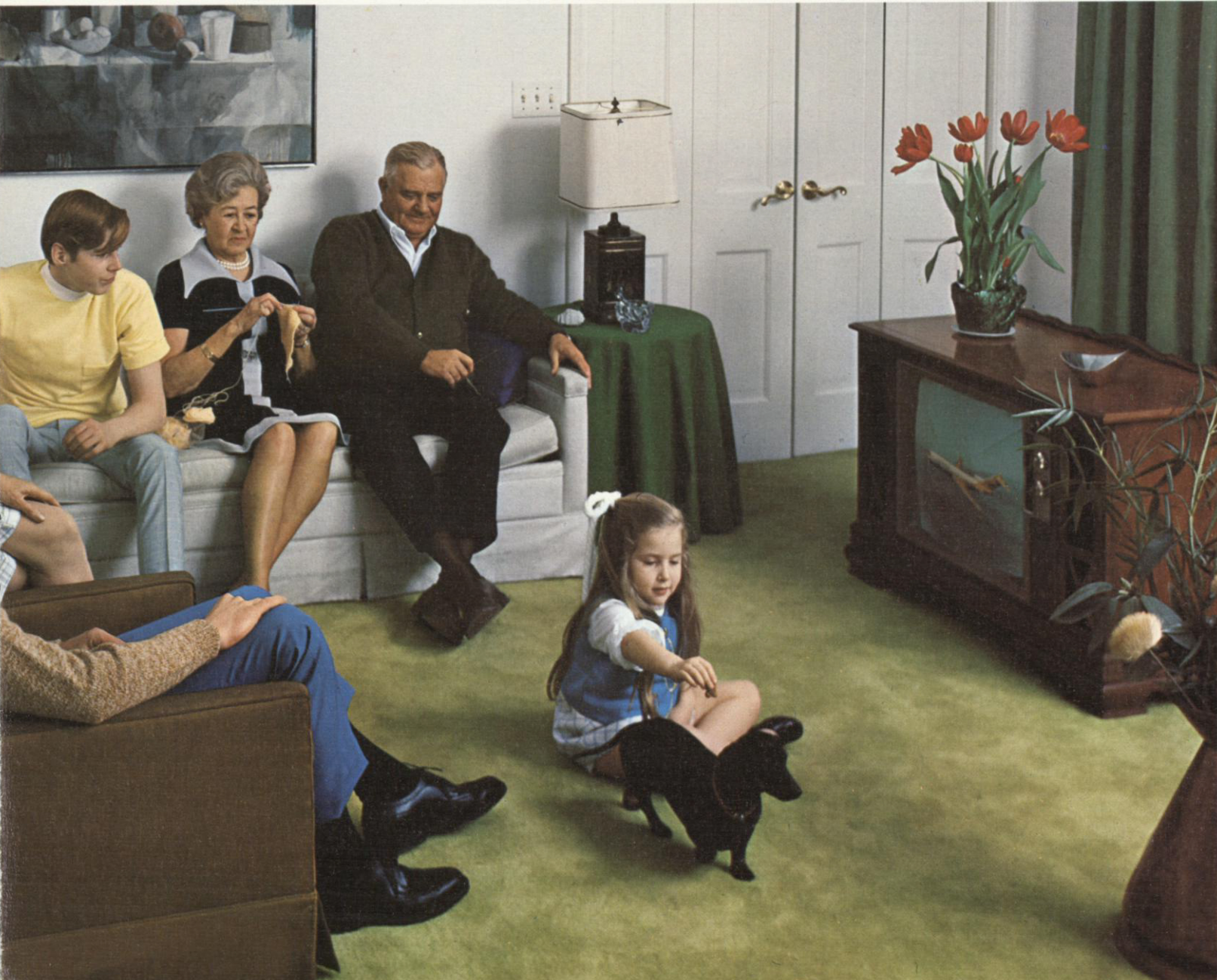
The teenage son knows he is "in" when his clothing comes from Zayre.

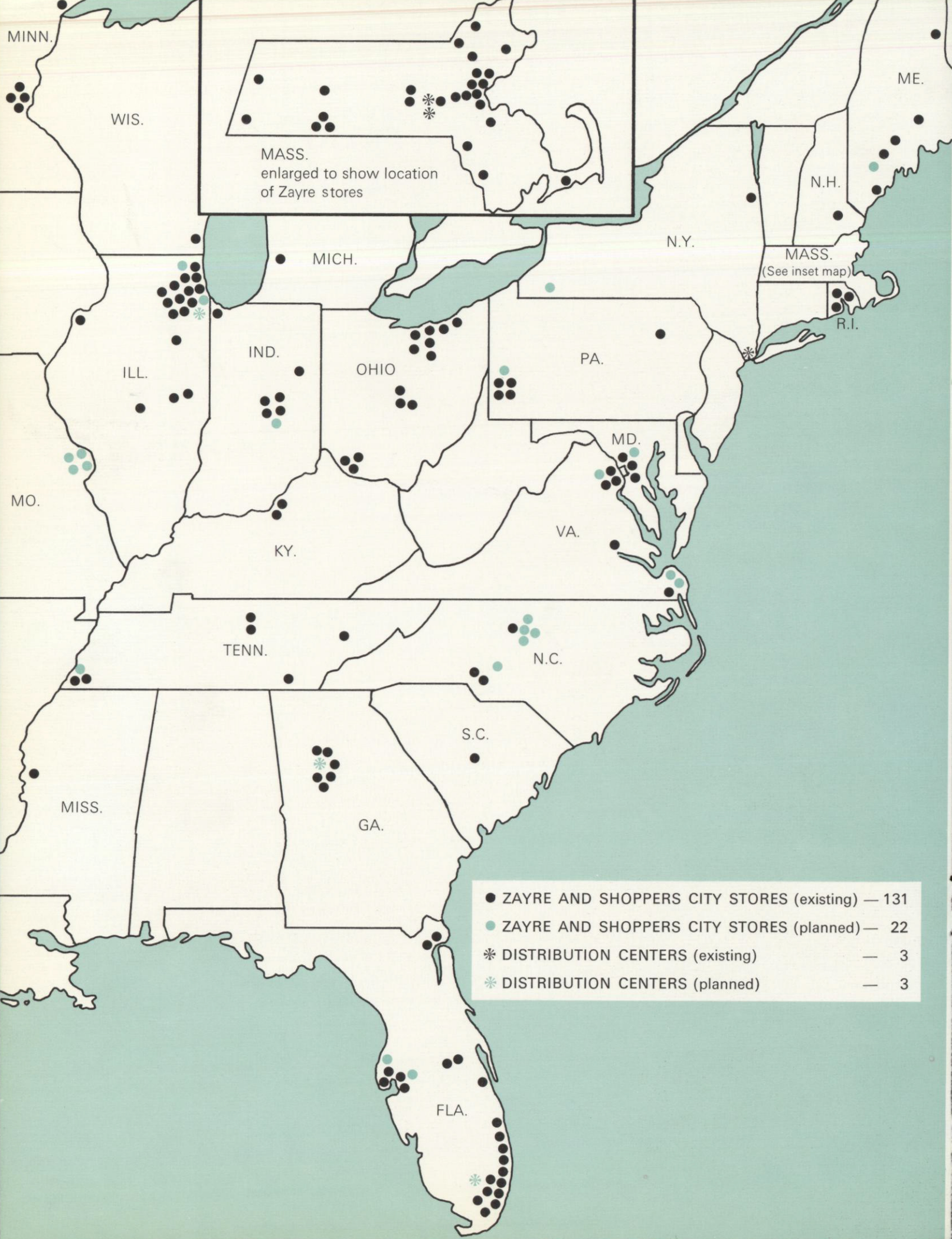




For Mother,
Zayre has the latest
color coordinated accessories
for the home.

A quiet Sunday afternoon
at home with a Zayre family.





Zayre Corp. Stores (In operation at April 1, 1969)

● Zayre and Shoppers City Stores (131)

Florida	FORT LAUDERDALE (2), HIALEAH, HOLLYWOOD, JACKSONVILLE (2), LARGO, MELBOURNE, MIAMI (4), NORTH MIAMI (2), ORLANDO (2), POMPANO BEACH, ST. PETERSBURG, TAMPA (2), WEST PALM BEACH
Georgia	ATLANTA (2), CHAMBLEE, DECATUR, FOREST PARK, SMYRNA
Illinois	ADDISON, CHAMPAIGN, CHICAGO (3), DANVILLE, DES PLAINES, FOREST PARK, JOLIET, LOMBARD, MARKHAM, OAKLAWN (2), PALATINE, RIVER GROVE, ROCK ISLAND, SPRINGFIELD
Indiana	HAMMOND, INDIANAPOLIS (4), MUNCIE
Kentucky	LOUISVILLE (2)
Maine	AUGUSTA, BANGOR, PORTLAND, PRESQUE ISLE, WATERTOWN
Maryland	HYATTSVILLE, SILVER SPRING, WHEATON
Massachusetts	AGAWAM, ATTLEBORO, BEVERLY, BOSTON (3), BRAINTREE, CAMBRIDGE, CHICOPEE, FALL RIVER, GREAT BARRINGTON, HADLEY, HYANNIS, LOWELL, MEDFORD, METHUEN, NATICK, PITTSFIELD, REVERE, SAUGUS, SPRINGFIELD, WALTHAM, WOBURN, WORCESTER (2)
Michigan	KALAMAZOO
Minnesota	BROOKLYN CENTER, COLUMBIA HEIGHTS, DULUTH, MINNEAPOLIS, ST. PAUL
Mississippi	JACKSON
New Hampshire	MANCHESTER
New York	GLENS FALLS
North Carolina	CHARLOTTE (2), WINSTON-SALEM
Ohio	BROOK PARK, CINCINNATI (3), CLEVELAND, COLUMBUS (2), ELYRIA, MAYFIELD HEIGHTS, MENTOR, NORTH OLMSTED, UPPER ARLINGTON, WARRENSVILLE HEIGHTS
Pennsylvania	BADEN, MCKEESPORT, MONROEVILLE, PITTSBURGH, WILKES-BARRE
Rhode Island	CRANSTON, EAST PROVIDENCE, PROVIDENCE
South Carolina	COLUMBIA
Tennessee	CHATTANOOGA, KNOXVILLE, MADISON, MEMPHIS (2), NASHVILLE
Virginia	ALEXANDRIA, FALLS CHURCH, PORTSMOUTH, RICHMOND, VIENNA
Wisconsin	RACINE

● Zayre Store Openings Now Scheduled

Florida	PINELLAS PARK, TAMPA
Illinois	CHICAGO (2)
Indiana	GREENWOOD
Maine	LEWISTON
Maryland	RANDOLPH VILLAGE
Missouri	ST. LOUIS (4)
New York	LAKEWOOD
North Carolina	BURLINGTON, GREENSBORO (2), HIGH POINT, KANNAPOLIS
Pennsylvania	PITTSBURGH
Tennessee	MEMPHIS
Virginia	DONALDSON, NORFOLK (2)

Apparel Specialty Stores (46)

Connecticut	MANCHESTER, NORWICH, THOMPSONVILLE, TORRINGTON
Maine	AUGUSTA, BIDDEFORD, LEWISTON, PORTLAND, SKOWHEGAN
Massachusetts	ANDOVER, ATTLEBORO, BOSTON (2), CHICOPEE, DEDHAM, FALL RIVER, FRAMINGHAM, GLOUCESTER, HADLEY, LOWELL, LYNN, MALDEN, PITTSFIELD, QUINCY, SALEM, SPRINGFIELD, WALTHAM, WESTFIELD, WORCESTER
New Hampshire	BERLIN, CONCORD, KEENE, MANCHESTER, NASHUA, ROCHESTER
New York	AUBURN, CANANDAIGUA, GLENS FALLS, JAMESTOWN, KINGSTON, NIAGARA FALLS, OLEAN, POUGHKEEPSIE, WATERTOWN
Pennsylvania	ERIE
Vermont	NEWPORT

Distribution Centers

Massachusetts	FRAMINGHAM, NATICK
New York	NEW YORK

Distribution Centers to be Opened

Florida	MIAMI (FALL 1969)
Georgia	ATLANTA (FALL 1969)
Illinois	CHICAGO (SPRING 1970)

Zayre Corp. and All Subsidiaries

Ten-Year Summary of Progress

Fiscal Year Ended Last Saturday in January	1969	1968	1967	1966
OPERATING DATA: (2)				
Net sales, excluding sales of leased departments	\$490,690,810	\$415,434,683	\$345,702,887	\$278,558,325
Income before federal income taxes	\$ 18,338,471	\$ 14,974,033	\$ 14,409,612	\$ 11,656,325
Net income	\$ 9,538,471	\$ 8,474,033	\$ 8,109,612	\$ 6,656,325
Average number of common shares outstanding (4)	4,319,079	4,235,577	4,147,026	3,754,230
Net income per common share (1) (4)	\$2.10	\$1.88	\$1.87	\$1.69
STORES IN OPERATION:				
Self-service department stores	131	115	96	83
Apparel specialty shops	46	45	40	41
Fabric shops (2)	6	5		
FINANCIAL POSITION: (2)				
Current assets	\$103,844,019	\$ 83,368,194	\$ 69,970,686	\$ 55,771,000
Current liabilities	\$ 51,384,968	\$ 40,705,403	\$ 35,960,526	\$ 26,742,975
Working capital	\$ 52,459,051	\$ 42,662,791	\$ 34,010,160	\$ 29,028,025
Shareholders' equity	\$ 56,328,109	\$ 46,739,148	\$ 36,790,164	\$ 23,746,510
Number of common shares outstanding at year end (4)	4,569,616	4,283,449	4,169,322	3,795,205
Equity per common share (3) (4)	\$12.10	\$10.09	\$8.31	\$5.85

(1) Net income per common share is based on the average number of shares outstanding each year as retroactively adjusted for preferred and common stock issued in connection with "poolings of Interests," after full dividend requirements (including amounts waived) on preferred stock.

(2) Information for 1968 and 1969 reflects pooling of interests with Beaconway Stores, Inc.

(3) Information assumes conversion of outstanding preferred stock.

(4) Adjusted to reflect the three-for-two common stock split in April, 1969.

1965	1964	1963	1962	1961	1960	
\$211,984,918	\$167,846,772	\$115,850,773	\$59,165,743	\$41,942,064	\$31,372,742	
\$ 7,482,061	\$ 3,252,011	\$ 2,622,428	\$ 2,003,736	\$ 1,062,697	\$ 903,148	
\$ 4,369,611	\$ 1,993,277	\$ 1,561,428	\$ 1,126,736	\$ 541,697	\$ 441,148	
3,725,803	3,725,175	3,286,149	3,163,650	3,163,650	3,163,650	
\$1.09	\$.45	\$.37	\$.35	\$.17	\$.14	
72	64	47	27	14	11	
43	46	48	52	59	61	
\$ 36,235,800	\$ 33,110,766	\$ 21,891,016	\$11,467,893			
\$ 19,805,734	\$ 18,996,036	\$ 12,364,312	\$ 7,347,858			
\$ 16,430,066	\$ 14,114,730	\$ 9,526,704	\$ 4,120,035			
\$ 14,907,961	\$ 11,694,875	\$ 10,023,589	\$ 4,957,270			
3,730,110	3,725,175	3,531,150	3,163,650			
\$3.78	\$2.92	\$2.62	\$1.57			

Zayre Corp. and Operating Subsidiaries

Consolidated Balance Sheets

Assets

Current assets:

	Jan. 25, 1969	Jan. 27, 1968
Cash	\$ 9,044,367	\$ 8,113,992
Marketable securities, at cost approximating market		998,125
Customer instalment receivables	2,891,081	2,128,822
Accounts receivable, trade and other	4,575,920	3,104,513
Amounts due from vendors	4,446,546	2,702,974
Merchandise inventories, at the lower of cost (retail method) or market	77,884,824	63,009,367
Due from leasing subsidiaries	1,320,732	1,497,860
Prepaid expenses	1,892,113	1,597,062
Total current assets	102,055,583	83,152,715
Equity in wholly owned unconsolidated leasing subsidiaries (note A)	3,133,490	2,786,968
Equipment and leasehold costs and improvements, at cost	6,722,301	5,062,019
Less accumulated depreciation and amortization (note H)	2,671,700	2,359,009
	4,050,601	2,703,010
Preopening expenses, at amortized cost	710,931	761,774
Deferred charges and other assets	1,019,724	1,190,731
	<u>\$110,970,329</u>	<u>\$90,595,198</u>

Liabilities

Current liabilities:

Current instalments of general corporate debt	\$ 1,220,000	\$ 1,120,858
Accounts payable	30,229,447	24,114,656
Sales taxes, payroll withholdings, and collections for leased departments	4,742,403	3,488,812
Accrued expenses	7,002,386	5,589,298
Federal income taxes (including current portion of deferred)	3,154,492	2,064,934
Total current liabilities	46,348,728	36,378,558
General corporate debt, exclusive of current instalments (note B)	8,012,492	7,082,492
Deferred federal income taxes (note C)	281,000	395,000
Commitments (note D)		

Shareholders' Equity

Preferred stock, par value \$1, authorized 1,000,000 shares:		
Series A cumulative convertible preferred stock (note F)		463,636
Series B cumulative convertible preferred stock, issued and outstanding 57,659 shares (note F)	57,659	57,659
Common stock, par value \$1, authorized 7,000,000 shares, issued and outstanding 4,569,616 shares (notes A, F and G)	4,569,616	2,855,633
Additional paid-in capital	9,287,130	10,227,460
Retained earnings (notes B and F)	42,413,704	33,134,760
	<u>56,328,109</u>	<u>46,739,148</u>
	<u>\$110,970,329</u>	<u>\$90,595,198</u>

The accompanying notes are an integral part of the financial statements

Zayre Corp. and All Subsidiaries

Consolidated Balance Sheets

Assets

Current assets:

Cash	\$ 9,529,991	\$ 8,925,679
Marketable securities, at cost approximating market	2,588,988	1,814,980
Customer instalment receivables	2,891,081	2,128,822
Accounts receivable, trade and other	4,610,476	3,189,310
Amounts due from vendors	4,446,546	2,702,974
Merchandise inventories, at the lower of cost (retail method) or market	77,884,824	63,009,367
Prepaid expenses	1,892,113	1,597,062
Total current assets	103,844,019	83,368,194

Property, at cost:

Land	4,289,754	3,905,412
Buildings	18,287,374	15,426,955
Leasehold costs and improvements	6,508,760	5,004,749
Furniture, fixtures and equipment	40,391,042	34,002,628
	69,476,930	58,339,744
Less accumulated depreciation and amortization (note H)	17,563,895	13,693,930
	51,913,035	44,645,814

Preopening expenses, at amortized cost

	710,931	761,774
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Deferred charges and other assets

	1,216,727	1,302,855
	<u>\$157,684,712</u>	<u>\$130,078,637</u>

Liabilities

Current liabilities:

Current instalments of long-term debt	\$ 5,099,154	\$ 4,726,173
Accounts payable	30,887,623	24,508,583
Sales taxes, payroll withholdings, and collections for leased departments	4,742,403	3,488,812
Accrued expenses	7,358,788	5,808,710
Federal income taxes (including current portion of deferred)	3,297,000	2,173,125
Total current liabilities	51,384,968	40,705,403

Long-term debt, exclusive of current instalments (note B):

General corporate debt	8,012,492	7,082,492
Equipment promissory notes	21,122,368	17,166,923
Real estate mortgages	19,187,775	16,709,671

Deferred federal income taxes (note C)

	1,649,000	1,675,000
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Commitments (note D)

Shareholders' Equity

Preferred stock, par value \$1, authorized 1,000,000 shares:

Series A cumulative convertible preferred stock (note F)		463,636
Series B cumulative convertible preferred stock, issued and outstanding		
57,659 shares (note F)	57,659	57,659

Common stock, par value \$1, authorized 7,000,000 shares, issued and outstanding

4,569,616 shares (notes A, F and G)	4,569,616	2,855,633
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Additional paid-in capital

	9,287,130	10,227,460
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Retained earnings (notes B and F)

	42,413,704	33,134,760
	56,328,109	46,739,148
	<u>\$157,684,712</u>	<u>\$130,078,637</u>

The accompanying notes are an integral part of the financial statements

Zayre Corp. and All Subsidiaries

Consolidated Statements of Income and Retained Earnings

	<i>Fiscal Year Ended</i>	
	<i>Jan. 25, 1969</i>	<i>Jan. 27, 1968</i>
Net sales, excluding sales of leased departments	\$490,690,810	\$415,434,683
Rentals from leased departments, net of estimated allocated store expenses	1,097,485	979,531
Other income	860,599	509,988
	<u>492,648,894</u>	<u>416,924,202</u>
Cost of sales, including buying and occupancy costs	385,480,110	332,283,644
Selling, general and administrative expenses	79,083,124	62,011,325
Depreciation and amortization (note H)	5,994,539	5,015,458
Interest expense	3,752,650	2,639,742
	<u>474,310,423</u>	<u>401,950,169</u>
Income before provision for federal income taxes	18,338,471	14,974,033
Provision for federal income taxes (note C)	8,800,000	6,500,000
Net income	<u>9,538,471</u>	<u>8,474,033</u>
Retained earnings at beginning of year	33,134,760	24,885,727
Dividends on Series A preferred stock	(259,527)	(225,000)
Retained earnings at end of year	<u>\$ 42,413,704</u>	<u>\$ 33,134,760</u>
Net income per common share (note I)	<u>\$2.10</u>	<u>\$1.88</u>

Consolidated Statements of Additional Paid-In Capital

	<i>Fiscal Year Ended</i>	
	<i>Jan. 25, 1969</i>	<i>Jan. 27, 1968</i>
Balance at beginning of year	\$ 10,227,460	\$ 9,525,710
Excess over par value of shares of common stock issued upon:		
Exercise of stock options	352,405	230,056
Exercise of warrants		327,340
Conversion of Series A preferred stock (note F)	177,638	
Par value of common stock to be distributed in three-for-two split (note A)	(1,523,205)	
Acquisition expenses	(67,556)	
Other credits (note C)	120,388	144,354
	<u>\$ 9,287,130</u>	<u>\$ 10,227,460</u>

The accompanying notes are an integral part of the financial statements

Zayre Corp. and All Subsidiaries

Consolidated Statements of Funds

Source	Fiscal Year Ended	
	Jan. 25, 1969	Jan. 27, 1968
Net income	\$ 9,538,471	\$ 8,474,033
Charges to income not requiring current expenditures of funds:		
Depreciation and amortization	5,994,539	5,015,458
Deferred federal income taxes (excluding current portion)	(26,000)	490,000
Funds provided from operations	15,507,010	13,979,491
Net increase in long-term debt	7,363,549	11,669,038
Common stock issued upon exercise of options and warrants	370,455	633,481
Tax benefit arising from pooling (note C)	345,420	405,000
	<u>\$ 23,586,434</u>	<u>\$ 26,687,010</u>
Application		
Land and buildings (net additions)	\$ 3,247,595	\$ 8,312,491
Fixtures, equipment and leasehold costs and improvements (net additions)	8,643,905	8,863,394
Preopening costs	1,162,969	1,206,818
Deferred charges and other assets	295,352	291,656
Dividends on Series A preferred stock	259,527	225,000
Other	180,826	
	<u>13,790,174</u>	<u>18,899,359</u>
Increase in working capital	9,796,260	7,787,651
	<u>\$ 23,586,434</u>	<u>\$ 26,687,010</u>

The accompanying notes are an integral part of the financial statements

Auditors' Report

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of Zayre Corp.:

We have examined the consolidated balance sheet of Zayre Corp. and All Subsidiaries as of January 25, 1969, the related consolidated statements of income and retained earnings, additional paid-in capital, and funds for the fiscal year then ended, and the consolidated balance sheet of Zayre Corp. and Operating Subsidiaries as of January 25, 1969. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements for the fiscal year ended January 27, 1968.

In our opinion, the aforementioned financial statements present fairly the financial position of Zayre Corp. and All Subsidiaries and Zayre Corp. and Operating Subsidiaries at January 25, 1969 and January 27, 1968, and the results of operations and source and application of funds of Zayre Corp. and All Subsidiaries for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts
April 17, 1969

Lybrand, Ross Bros. & Montgomery

Zayre Corp. and All Subsidiaries

Notes to Consolidated Financial Statements

A — Basis of Presentation

The consolidated financial statements of Zayre Corp. and All Subsidiaries include the financial statements of all the Company's subsidiaries, all wholly owned. However, the consolidated balance sheet of Zayre Corp. and Operating Subsidiaries excludes the assets and liabilities of the leasing subsidiaries, which are presented in note J.

The Company acquired Beaconway Stores, Inc. in January, 1969 in exchange for 57,659 shares of its Series B cumulative convertible preferred stock. The consolidated financial statements for both fiscal years give retroactive effect to this acquisition on a "pooling of interests" basis.

The fiscal 1969 financial statements and notes give effect to the three-for-two stock split declared by the Board of Directors on April 17, 1969 for distribution to shareholders of record on April 28, 1969.

B — Long-Term Debt

At January 25, 1969, long-term debt, exclusive of current instalments, consisted of the following:

General corporate debt:

Promissory notes, payments aggregating \$928,000 annually, interest from 5.8% to ¾% over prime, maturing from March 31, 1972 to January 31, 1984	\$ 6,112,492
5½% subordinated notes, payments aggregating \$200,000 annually, balance due January 15, 1979	1,900,000
	<u>8,012,492</u>

Equipment promissory notes, payable

\$436,514 monthly including interest principally at ¾% above prime, maturing March 1, 1970 to November 1, 1975	21,122,368
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Real estate mortgages, payable \$828,132

semi-annually including interest at 5½% to 7¼%, maturing March 30, 1970 to November 1, 1993	19,187,775
	<u>\$48,322,635</u>

The 5½% subordinated notes are subordinated to the other general corporate debt. Under provisions of the agreements governing long-term debt, \$12,000,000 of retained earnings was available for dividends at January 25, 1969. While the parent company is not directly obligated with respect to the equipment promissory notes or real estate mortgages, it has guaranteed the leases which have been assigned as collateral for such debt.

C — Federal Income Taxes

Deferred federal income taxes arise from income tax and financial reporting differences with respect to depreciation expense, preopening costs, certain accrued expenses, and customer instalment receivables.

Investment credit used to reduce the provisions for federal income taxes amounted to \$402,000 in fiscal 1969 and \$565,000 in fiscal 1968. Approximately \$164,000 of unused investment credit is available for reduction of future taxes.

Other credits (net) to additional paid-in capital represent the federal income tax benefits resulting from the acquisition ("pooling of interests") of a company in fiscal 1967 after reflecting amortization of the cash portion of the acquisition.

D — Commitments

The companies are committed to pay minimum annual rentals under long-term net leases expiring: between 1972 and 1979 — \$1,700,000; between 1980 and 1986 — \$6,300,000; and between 1987 and 1995 — \$5,200,000. Additional minimum annual rentals of approximately \$2,700,000 will be payable under long-term leases for twenty-three stores to be opened during fiscal 1970.

The Company has outstanding purchase commitments of approximately \$6,000,000 for real estate and leasehold improvements and \$6,000,000 for furniture, fixtures and equipment for new facilities.

E — Retirement Plan

The actuarially determined cost of the Company's noncontributory, funded employee Retirement Plan, amounting to \$720,000 in fiscal 1969 (including amortization of prior service costs over thirty years), and of an unfunded plan, amounting to \$40,000 in fiscal 1969 (including amortization of prior service costs over forty years), has been charged to income. The corresponding fiscal 1968 charges were \$544,000 and \$31,000 respectively.

F — Preferred Stock

During fiscal 1969, 461,384 shares of the Company's Series A cumulative convertible preferred stock were converted into 259,092 shares of common stock, principally as a result of the Company's call for a January 13, 1969 redemption, and 2,252 of these shares were redeemed at \$16.66 per share.

The Company's Series B cumulative convertible preferred stock is entitled to a liquidation preference of \$65 per share, or \$3,747,835 in the aggregate for the 57,659 shares issued and outstanding, and is redeemable, subsequent to January 30, 1974, at the option of the Company at the same price. Dividend payments at an annual rate of \$2.60 per share will begin to accrue as to 46,866 shares on January 31, 1970 and as to 10,793 shares on January 31, 1971. Each share is convertible into 1.5 shares of common stock and 86,488 shares of common stock have been reserved for the conversion privilege.

G — Stock Options and Stock Purchase Warrants

Under its Stock Option Plans, the Company has granted certain officers and key employees options for the purchase of common stock within five years from the grant date at option prices of 100% of market price on the grant date. Generally, all options are exercisable in four equal cumulative annual instalments commencing one year after the grant date. Unissued common stock reserved for options aggregated 208,965 shares at January 25, 1969 and 243,248 shares at January 27, 1968. Information concerning activity during fiscal 1969 follows:

	Option Prices	Number of Common Shares	
		Issuable under Options Granted	Available for Future Options
Outstanding at 1/27/68	\$4.70 to \$24.92	161,048	82,200
Options granted	\$25.75	2,400	(2,400)
Options exercised	\$4.70 to \$23.42	(27,075)	
Cancellations		(14,108)	6,900
Outstanding at 1/25/69	\$4.70 to \$25.75	122,265	86,700

Class A and Class B warrants for the purchase of 78,780 and 47,265 shares, respectively, of the Company's common stock were outstanding at January 25, 1969, and the Company has reserved 126,045 shares of its common stock therefor. The price at which they are exercisable through July 15, 1971 is \$4.76 for Class A warrants and \$5.95 for Class B warrants; thereafter both classes are exercisable at \$7.14 per share until they expire on January 15, 1979.

H — Depreciation and Amortization

For financial reporting purposes, the Company provides for depreciation and amortization by the use of the straight line method as follows: buildings — 33 years; leasehold costs and improvements — shorter of the lease term or estimated useful life; furniture, fixtures and equipment — 5 to 10 years; and preopening costs — 12 months.

I — Net Income per Common Share

Net income per common share is based upon the average number of shares outstanding in each year, as retroactively adjusted for the three-for-two stock split in April, 1969, after provision for the full annual dividend requirements on the Series B preferred stock (proforma in each year) and on the Series A preferred stock (including dividends waived) through the date of the call for redemption.

Fully diluted net income per share would have been \$1.97 in fiscal 1969 and \$1.77 in fiscal 1968, assuming full conversion of both issues of preferred stock and exercise of all outstanding stock options and warrants.

J — Combined Balance Sheets of the Leasing Subsidiaries

	January 25, 1969	January 27, 1968
ASSETS		
Property, at cost:		
Land and buildings	\$22,577,128	\$19,332,367
Furniture, fixtures, and leasehold improvements	40,177,501	33,945,358
	62,754,629	53,277,725
Less accumulated depreciation and amortization	14,892,195	11,334,921
	47,862,434	41,942,804
Cash and marketable securities	3,074,612	1,628,542
Accounts receivable	34,556	84,797
Other assets	197,003	112,124
	\$51,168,605	\$43,768,267
LIABILITIES		
Long-term debt, including current instalments of \$3,879,154 in 1969 and \$3,605,315 in 1968 (note B)	\$44,189,297	\$37,481,909
Accounts payable and accrued expenses	1,014,578	613,339
Federal income taxes	142,508	108,672
Due to parent and operating subsidiaries	1,320,732	1,497,860
Deferred federal income taxes	1,368,000	1,279,519
	48,035,115	40,981,299
EQUITY		
	3,133,490	2,786,968
	\$51,168,605	\$43,768,267

Fixed annual rentals are receivable, under long-term leases, from the parent company and its operating subsidiaries for the use of real estate, furniture, fixtures and leasehold improvements owned by the leasing subsidiaries.

Directors

MORRIS FELDBERG
Chairman

MAX FELDBERG
*Chairman,
Executive Committee*

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Partner, Ropes & Gray

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President

SUMNER L. FELDBERG
Executive Vice President

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*Partner,
Nathanson & Rudofsky*

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Senior Vice President

MORRIS NATELSON
Partner, Lehman Brothers

WALTER J. SALMON
*Professor of Marketing,
Harvard Graduate School of
Business Administration*

BURTON S. STERN
Senior Vice President

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MORRIS FELDBERG

Chairman, Executive Committee
MAX FELDBERG

President
STANLEY H. FELDBERG

Executive Vice President
SUMNER L. FELDBERG

Senior Vice Presidents
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Real Estate

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*General Merchandise
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Merchandising

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Secretary
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Assistant Vice Presidents
GERALD DAVIS
Merchandising

FRED FIELD
Merchandising

GEORGE FREEMAN
Staff — Finance

DAVID GOLDMAN
*Advertising and
Sales Promotion*

SAMUEL J. GREENBERG
Merchandising

JOSEPH HEFFERNAN
Store Operations

ROBERT KENZER
Corporate Personnel

RANDOLPH L. KRUGER
Central Office Services

NORMAN LENOX
Disbursements

JOHN F. MCGOWAN
Regional Manager

GEORGE MOVER
Regional Manager

ARTHUR J. OBER, JR.
*Store Planning and
Construction*

MALCOLM L. SHERMAN
Merchandising

ARNOLD SUVAL
Merchandising

Assistant Treasurer
ROBERT SHEDD

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Trust Company
Boston, Massachusetts

Irving Trust Company
New York, New York

Registrars

The First National Bank
of Boston
Boston, Massachusetts

The Chase Manhattan Bank
New York, New York

Listing

New York Stock Exchange

General Counsel

Nathanson & Rudofsky

Special Counsel

Ropes & Gray

Auditors

Lybrand, Ross Bros. &
Montgomery

Touche, Ross, Bailey & Smart

Executive Offices

Framingham, Massachusetts

Framingham Executive Offices — where management plans the future



Annual Meeting

The 1969 annual meeting will be held at 11:00 A.M. on Tuesday, June 3, 1969, in the Forum Room, State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts.

YANKEE



3 cheers for THE RED WHITE & blue !

The great thing to do now is join the All-American team of separates at Zayre! It's a put-together plan in red, white and blue plaid with a dash of solid red for extra smash! A Yankee Doodle Dandy kind of look, based on long jackets and swinging pants. In bonded acrylic to keep in shape wherever the action takes you. Right now, the fashion action is at Zayre. It's where all the great looks come at those dandy little prices!

Build your own Yankee Doodle Dandy look from these plaid put-togethers, sizes 5 to 13.
Jacket with demi-belt, back vent. **12.24**

Flare-leg slacks, belted in patent. **9.47**

Skirt with side pleats, patch pockets. **6.57**

Add the smashing extras:

Dandy red vest with a parade of brass buttons. Sizes 5 to 13. **6.57**

Arnel crepe shirt with cuffed sleeves, high brave collar. Sizes 5 to 13. **5.47**

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